F.N.B.C. OF LA GRANGE, INC.

March 26, 2007

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Washington, D.C. 20219

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Federal Reserve Board
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Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington D.C. 20552

Subject: Risk-Based Capital/Notice of Proposed Rulemaking

Ladies and Gentlemen:

I am writing in response to your request for comments on the Basel IA proposed final rule. F.N.B.C. of LaGrange, Inc. is a multi-bank holding company located in the Chicago suburbs which will have the option of adopting the Basel IA capital guidelines when they come into effect.

In general terms we welcome the Basel IA modifications as improvements over the existing Basel I risk-based capital guidelines as we look forward to competing with larger financial institutions as they begin operating under their own separate capital guidelines. We are uncertain as to what extent the Basel II guidelines will benefit larger competitors in practice, but the Basel IA standards give banks of our size at least some ability to emulate their efficient employment of capital.

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Since the beginning of this rulemaking process, all four federal banking agencies stated that the policy objectives were to make capital requirements more risk sensitive and to address potential competitive inequities that might unfairly disadvantage general banks under a bifurcated capital system. One means by which the agencies seek to obtain the former objective is to recognize for the first time the risk mitigation provided by third party guarantees from investment grade-rated entities in the private sector.

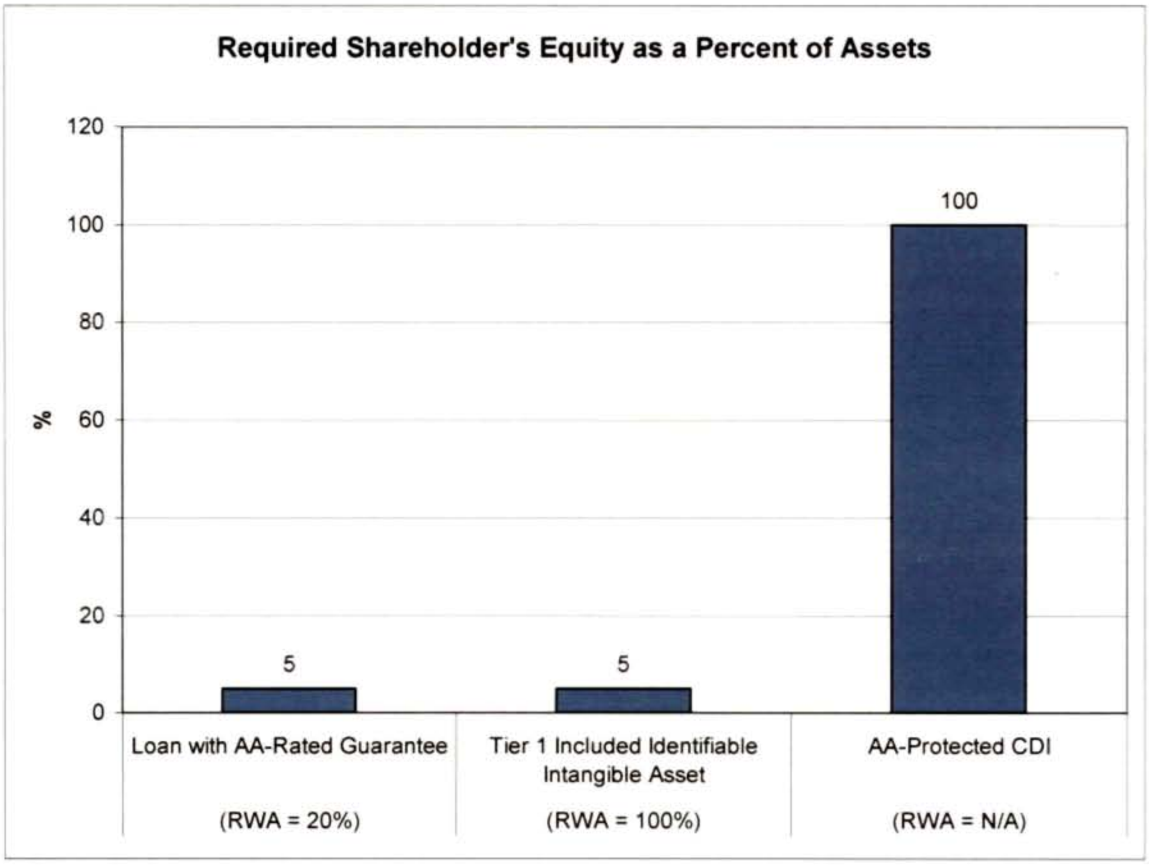
Furthermore, the agencies have solicited comment on how the rulemaking might address other exposures besides credit exposures.

As we noted in a prior comment letter to the Advanced Notice of Proposed Rulemaking, there is one area of bank capital standards that we urge the agencies to address because of the noticeable effect it would have on both risk sensitivity and competitive fairness for general banks. This area concerns contractual protection of value for acquired core deposit bases.

Under existing policy dating to 1994, the federal agencies have treated purchased core deposit intangible assets (CDI) as a complete deduction from regulatory capital. Since that time, acquirers of core deposits have demonstrated the ability to secure contractual rights from investment grade-rated third parties to re-sell (at their option) acquired core deposit bases for guaranteed premiums in excess of book value. These contracts satisfactorily address the original risk consideration identified in the 1994 regulation which stated that core deposits may not be readily marketable.

In contrast, two other common identifiable intangible assets, purchased mortgage servicing assets (PMSRs) and purchased credit card relationships (PCCRs), have been included in regulatory capital. We are unaware of any instance wherein owners of these identifiable intangibles have been able to secure similar contractual assurances of value. Given that these other two identifiable intangible assets tend to be acquired by Basel II-size banks, we have serious concerns that general banks might be unfairly disadvantaged by the disparate treatment of contractually protected core deposit intangible assets.

The following graph illustrates the degree to which the economic capital required for AA-protected core deposit intangible assets far exceeds the capital allocated to either AA-guaranteed loans under the proposed rule or unprotected PMSRs or PCCRs.



As this graph illustrates, general banks (which do not actively acquire mortgage servicing or credit card portfolios) must allocate nearly 17 times more economic capital for core deposit intangibles than Basel II-size banks must for the other identifiable intangibles. The magnitude of this disparity exacerbates both the lack of risk sensitivity and competitive fairness in our view. If contractually protected core deposit intangible assets are continued as a complete deduction from regulatory capital, we fear that the policy outcome regarding identifiable intangible assets will be completely at odds with this policy's objectives. For purposes of consistency and fairness, the presence of contractual rights extended by investment grade-rated entities guaranteeing liquidation values for acquired core deposit bases should qualify the related identifiable intangible assets for inclusion in core capital.

Sincerely,

Martin P. Madden
Executive Vice President